

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

(Mark one)

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2002

or

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from N/A to N/A

Commission File Number: 000-24915

Golden State Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-4669792

(I.R.S. Employer Identification No.)

135 Main Street, San Francisco, CA

(Address of principal executive offices)

94105

(Zip Code)

415-904-1100

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes    No

The number of shares outstanding of registrant's \$1.00 par value common stock, as of the close of business on April 30, 2002: 1,000 shares.

Registrant meets the conditions set forth in General Instruction H (1) (a) and (b) of Form 10-Q and is therefore filing this Form with certain reduced disclosures, as permitted by General Instruction H (2).

**GOLDEN STATE HOLDINGS INC.  
FIRST QUARTER 2002 REPORT ON FORM 10-Q  
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<p>* Item 3 of Part I and Items 2, 3 and 4 of Part II are not included as per conditions met by Registrant set forth in General Instruction H (1) (a) and (b) of Form 10-Q.</p>	

Golden State Holdings Inc. is a wholly owned subsidiary of Golden State Bancorp Inc. For more information, refer to Golden State Bancorp Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**March 31, 2002 and December 31, 2001**  
(Unaudited)  
(dollars in thousands, except per share data)

<u>Assets</u>	<u>March 31, 2002</u>	<u>December 31, 2001</u>
Cash and due from banks	\$ 830,520	\$ 709,139
Interest-bearing deposits in other banks	100	103
Short-term investment securities	<u>80,555</u>	<u>95,929</u>
Cash and cash equivalents	911,175	805,171
Securities available for sale, at fair value	118,551	116,054
Securities held to maturity	29,228	30,602
Mortgage-backed securities available for sale, at fair value	5,808,176	7,057,903
Mortgage-backed securities held to maturity	1,302,260	1,385,113
Loans held for sale, net	2,198,878	2,608,365
Loans receivable, net	38,703,762	39,335,623
Investment in FHLB System	1,368,217	1,446,607
Premises and equipment, net	273,748	276,411
Foreclosed real estate, net	16,074	18,564
Accrued interest receivable	280,906	288,308
Goodwill (net of accumulated amortization of \$286,470 at both March 31, 2002 and December 31, 2001)	590,420	590,420
Other intangible assets (net of accumulated amortization of \$20,708 at March 31, 2002 and \$19,541 at December 31, 2001)	49,256	50,423
MSRs (net of valuation allowance of \$180,452 at March 31, 2002 and \$153,345 at December 31, 2001)	1,778,651	1,623,947
Derivative assets	194,303	349,026
Other assets	<u>493,183</u>	<u>536,281</u>
Total assets	<u><b>\$54,116,788</b></u>	<u><b>\$56,518,818</b></u>
<u>Liabilities, Minority Interest and Stockholder's Equity</u>		
Deposits	\$24,907,610	\$25,146,827
Securities sold under agreements to repurchase	2,160,196	2,363,945
Borrowings	22,539,615	24,444,541
Derivative liabilities	155,538	250,711
Other liabilities	<u>1,169,420</u>	<u>1,188,005</u>
Total liabilities	<u><b>\$50,932,379</b></u>	<u><b>\$53,394,029</b></u>
Commitments and contingencies	--	--
Minority interest	500,000	500,000
Stockholder's equity		
Common stock, \$1.00 par value, 1,000 shares authorized, issued and outstanding	1	1
Additional paid-in capital	1,572,609	1,569,894
Accumulated other comprehensive loss, net	(51,825)	(63,327)
Retained earnings (substantially restricted)	<u>1,163,624</u>	<u>1,118,221</u>
Total stockholder's equity	<u><b>2,684,409</b></u>	<u><b>2,624,789</b></u>
Total liabilities, minority interest and stockholder's equity	<u><b>\$54,116,788</b></u>	<u><b>\$56,518,818</b></u>

See accompanying notes to unaudited consolidated financial statements.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Income**  
**Three Months Ended March 31, 2002 and 2001**  
**(Unaudited)**  
(in thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Interest income:		
Loans receivable	\$649,159	\$ 777,790
Mortgage-backed securities available for sale	92,566	180,983
Mortgage-backed securities held to maturity	21,417	37,411
Loans held for sale	41,805	20,127
Securities available for sale	1,630	10,780
Securities held to maturity	147	8,501
Interest-bearing deposits in other banks	125	419
Dividends on FHLB stock	<u>20,839</u>	<u>23,046</u>
Total interest income	<u>827,688</u>	<u>1,059,057</u>
Interest expense:		
Deposits	135,142	240,837
Securities sold under agreements to repurchase	21,350	67,945
Borrowings	302,810	439,803
Other	<u>705</u>	<u>--</u>
Total interest expense	<u>460,007</u>	<u>748,585</u>
Net interest income	367,681	310,472
Provision for loan losses	<u>--</u>	<u>--</u>
Net interest income after provision for loan losses	<u>367,681</u>	<u>310,472</u>
Noninterest income:		
Loan servicing fees, net	(8,815)	(26,652)
Customer banking fees and service charges	58,148	51,261
Gain on sale, settlement and transfer of loans, net	34,619	4,924
(Loss) gain on sale of assets, net	(1,886)	439
Gain on non-monetary exchange of Star Systems common stock	--	20,671
Other income	<u>6,228</u>	<u>8,588</u>
Total noninterest income	<u>88,294</u>	<u>59,231</u>
Noninterest expense:		
Compensation and employee benefits	124,784	117,735
Occupancy and equipment	40,235	37,850
Professional fees	7,326	4,848
Loan expense	4,156	4,202
Foreclosed real estate operations, net	(832)	(398)
Amortization of goodwill and other intangible assets	1,167	14,940
Other expense	<u>55,702</u>	<u>51,961</u>
Total noninterest expense	<u>232,538</u>	<u>231,138</u>
Income before income taxes and minority interest	223,437	138,565
Income tax expense	91,287	36,183
Minority interest	<u>6,747</u>	<u>6,747</u>
Net income	<u>\$125,403</u>	<u>\$ 95,635</u>

See accompanying notes to unaudited consolidated financial statements.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**Three Months Ended March 31, 2002 and 2001**  
(Unaudited)  
(in thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Net income	\$125,403	\$ 95,635
Other comprehensive income, net of tax:		
Unrealized holding (loss) gain on securities available for sale:		
Unrealized holding (loss) gain arising during the period	(23,722)	99,215
Less: reclassification adjustment for gain included in net income	<u>(767)</u>	<u>(82)</u>
	(24,489)	99,133
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	--	1,477
Transition adjustment upon adoption of SFAS No. 133	--	(44,647)
Change in fair value of derivatives used for cash flow hedges, net of applicable taxes of \$24,858 in 2002 and \$25,689 in 2001	<u>35,991</u>	<u>(37,197)</u>
Other comprehensive income	<u>11,502</u>	<u>18,766</u>
Comprehensive income	<u>\$136,905</u>	<u>\$114,401</u>

See accompanying notes to unaudited consolidated financial statements.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Consolidated Statement of Stockholder's Equity**  
**Three Months Ended March 31, 2002**  
(Unaudited)  
(in thousands)

	Common <u>Stock</u>	Additional Paid-in <u>Capital</u>	Accumulated <u>Securities</u>	Other Comprehensive (Loss) <u>Derivatives</u>	Income, Net <u>Total</u>	Retained Earnings (Substantially <u>Restricted</u> )	Total Stockholder's <u>Equity</u>
Balance at December 31, 2001	\$ 1	\$1,569,894	\$56,052	\$(119,379)	\$(63,327)	\$1,118,221	\$2,624,789
Net income	--	--	--	--	--	125,403	125,403
Change in net unrealized holding gain on securities available for sale	--	--	(24,489)	--	(24,489)	--	(24,489)
Change in net unrealized holding loss on derivatives	--	--	--	35,991	35,991	--	35,991
Dividends to parent	--	--	--	--	--	(80,000)	(80,000)
Impact of Golden State restricted common stock	--	2,159	--	--	--	--	2,159
Tax benefit on exercise of stock options	<u>--</u>	<u>556</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>556</u>
Balance at March 31, 2002	<u>\$ 1</u>	<u>\$1,572,609</u>	<u>\$31,563</u>	<u>\$(83,388)</u>	<u>\$(51,825)</u>	<u>\$1,163,624</u>	<u>\$2,684,409</u>

See accompanying notes to unaudited consolidated financial statements.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**  
**Three Months Ended March 31, 2002 and 2001**

(Unaudited)  
(in thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income	\$ 125,403	\$ 95,635
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of goodwill and other intangible assets	1,167	14,940
Amortization of purchase accounting premiums and discounts, net	3,668	1,546
Accretion of discount on borrowings	226	285
Amortization of MSRs	114,325	58,415
Loss (gain) on sale of assets, net	1,886	(439)
Gain on sale of foreclosed real estate, net	(1,179)	(855)
Loss on sale, settlement and transfer of loans, net	117,924	32,766
Capitalization of originated MSRs	(152,543)	(37,690)
Depreciation and amortization of premises and equipment	13,341	12,562
Amortization of deferred debt issuance costs	1,491	1,836
FHLB stock dividends	(20,839)	(23,046)
Purchases and originations of loans held for sale	(6,461,450)	(2,289,629)
Net proceeds from the sale of loans held for sale	6,719,741	1,420,877
Net gain on derivatives used to hedge MSRs	(19,280)	(2,405)
Provision for loss on MSRs	27,107	77,000
Decrease in other assets	64,207	294,716
Decrease in accrued interest receivable	7,402	8,617
(Decrease) increase in other liabilities	(55,135)	216,444
Amortization of deferred compensation expense—Golden State restricted common stock	430	479
Gain on non-monetary exchange of Star Systems common stock	--	(20,671)
Reduction in net accrued tax liability	--	(25,805)
Minority interest	<u>6,747</u>	<u>6,747</u>
Net cash provided by (used in) operating activities	<u>494,639</u>	<u>(157,675)</u>

(Continued)

See accompanying notes to unaudited consolidated financial statements.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows (continued)**

**Three Months Ended March 31, 2002 and 2001**

(Unaudited)

(in thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Cash flows from investing activities:		
Purchases of securities available for sale	\$ (25,539)	\$ (155)
Proceeds from maturities of securities available for sale	23,170	269,891
Purchases of securities held to maturity	(995)	(1,386)
Principal payments and proceeds from maturities of securities held to maturity	2,369	26,353
Purchases of mortgage-backed securities available for sale	(43,644)	(41,198)
Principal payments on mortgage-backed securities available for sale	1,220,752	441,524
Proceeds from sales of mortgage-backed securities available for sale	29,268	--
Principal payments on mortgage-backed securities held to maturity	82,852	104,849
Proceeds from sales of loans	31,901	5,487
Loan originations and principal collections, net	2,035,111	177,330
Purchases of loans receivable	(1,402,470)	(1,486,453)
Purchases of FHLB stock	(21,775)	--
Redemption of FHLB stock	100,165	--
Purchases of premises and equipment	(11,238)	(12,364)
Proceeds from disposal of premises and equipment	4,236	2,546
Proceeds from sales of foreclosed real estate	9,390	7,211
Purchases of MSRs	(91,816)	(62,709)
Hedge receipts (payments)	19,942	(10,005)
Purchases of derivatives	(416,887)	(121,967)
Proceeds from sales and settlements of derivatives	<u>475,008</u>	<u>133,712</u>
Net cash provided by (used in) investing activities	<u>2,019,800</u>	<u>(567,334)</u>
Cash flows from financing activities:		
Net (decrease) increase in deposits	(239,093)	1,013,110
Proceeds from additional borrowings	30,601,848	24,400,121
Principal payments on borrowings	(32,481,000)	(24,048,510)
Principal payment of FN Holdings Notes	(250)	--
Net decrease in securities sold under agreements to repurchase	(203,749)	(450,864)
Dividends on common stock	(80,000)	(50,000)
Dividends paid to minority stockholders of subsidiary, net of taxes	(6,747)	(6,747)
Tax benefit on exercise of stock options	<u>556</u>	<u>386</u>
Net cash (used in) provided by financing activities	<u>(2,408,435)</u>	<u>857,496</u>
Net change in cash and cash equivalents	106,004	132,487
Cash and cash equivalents at beginning of period	<u>805,171</u>	<u>783,074</u>
Cash and cash equivalents at end of period	<u>\$ 911,175</u>	<u>\$ 915,561</u>

See accompanying notes to unaudited consolidated financial statements.



**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

(1) Basis of Presentation

These financial statements are in accordance with GAAP for interim financial information and Regulation S-X, Article 10. They are unaudited and exclude some of the disclosures for complete financial statements. Management believes it has made all adjustments necessary so that the financial statements are presented fairly. The results of operations for the three months ended March 31, 2002 may not indicate future results. Certain prior period amounts have been reclassified to conform to current presentation.

These financial statements should be read with the consolidated financial statements of GS Holdings included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. A glossary of defined terms begins on page 38 of this document. All terms used but not defined in the glossary are clarified in the Company's Annual Report on Form 10-K.

GS Holdings, a wholly owned subsidiary of Golden State, is a holding company whose only significant asset is all of the common and preferred stock of the Bank. Activities for the consolidated entity are primarily carried out by the Bank and its subsidiaries.

These unaudited consolidated financial statements include the accounts of GS Holdings, the Bank and the Bank's wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Minority interest represents amounts attributable to the REIT Preferred Stock of California Federal Preferred Capital Corporation, a wholly owned subsidiary of the Bank.

As GS Holdings' common stock is wholly owned by Golden State, EPS data is not presented.

(2) Reclassification of Securities

On January 1, 2001, the Company reclassified \$1.1 billion and \$85.0 million carrying value of mortgage-backed securities and U.S. government and agency securities, respectively, from securities held to maturity to their respective available-for-sale portfolios, as permitted upon the adoption of SFAS No. 133. The net unrealized loss related to these securities of \$30.4 million, which was recorded in OCI upon their initial transfer to the held-to-maturity portfolio in April 2000, was reclassified from accumulated other comprehensive loss, and the securities were subsequently marked to market, in accordance with SFAS No. 115.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

(3) Cash, Cash Equivalents, and Statements of Cash Flows

	<u>Quarter Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
	(in thousands)	
Cash paid for:		
Interest	\$459,517	\$ 814,456
Income taxes, net	3,541	767
Transfer of loans to foreclosed real estate	5,710	5,816
Loans made to facilitate the sale of real estate	--	168
Reclassification of loans from loans held for sale to loans receivable	--	4,863
Reclassification of loans receivable to loans held for sale	22,542	17,133
Impact of restricted common stock	2,159	2,117
Reclassification of mortgage-backed securities from the held-to-maturity portfolio to the available-for-sale portfolio upon the adoption of SFAS No. 133	--	1,067,933
Reclassification of securities from the held-to-maturity portfolio to the available-for-sale portfolio upon the adoption of SFAS No. 133	--	84,984
Reclassification of derivative assets (\$173.6 million) and derivative liabilities (\$8.8 million) related to MSRs at fair value upon the adoption of SFAS No. 133	--	164,767
Transfer of loans receivable to claims receivable	63,898	48,514

(4) Redemption of FN Holdings Notes

On January 2, 2002, GS Holdings redeemed the remaining \$250 thousand principal of the FN Holdings 10<sup>5</sup>/<sub>8</sub>% Senior Notes for a redemption price of \$263 thousand, including accrued interest. The premium paid in connection with the redemption was not material.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

(5) Segment Reporting

The Company derives most of its revenues from interest income, and interest expense is the most significant expense. Therefore, net interest income after provision for loan losses is presented for each segment. Because the Company also evaluates performance based on noninterest income and noninterest expense goals, these measures of segment profit and loss are also presented. The Company does not allocate income taxes to the segments.

	Three Months Ended March 31,		
	Community <u>Banking</u>	Mortgage <u>Banking</u>	<u>Total</u>
	(in thousands)		
Net interest income after provision for loan losses: (a)			
2002	\$ 347,922	\$ 45,387	\$ 393,309
2001	332,030	8,027	340,057
Noninterest income: (b)			
2002	\$ 75,590	\$ 22,338	\$ 97,928
2001	83,259	(15,540)	67,719
Noninterest expense: (c)			
2002	\$ 190,283	\$ 43,415	\$ 233,698
2001	194,394	37,904	232,298
Pre-tax contribution:			
2002	\$ 233,229	\$ 24,310	\$ 257,539
2001	220,895	(45,417)	175,478
Segment assets at period end: (d)			
2002	\$53,923,236	\$5,667,673 (e)	\$59,590,909
2001	61,723,458	5,126,172 (e)	66,849,630

(a) Includes \$25.6 million and \$29.6 million for the three months ended March 31, 2002 and 2001, respectively, in earnings credit provided to FNMC by the Bank, primarily for custodial bank account balances generated by FNMC. Also includes \$39.9 million and \$58.2 million for the three months ended March 31, 2002 and 2001, respectively, in interest income and expense on intercompany loans.

(b) Includes \$9.6 million and \$8.5 million for the three months ended March 31, 2002 and 2001, respectively, in intercompany servicing fees.

(c) Includes \$1.2 million for each of the three months ended March 31, 2002 and 2001 in intercompany noninterest expense.

(d) Includes \$5.4 billion and \$5.0 billion for 2002 and 2001, respectively, in intercompany borrowings and \$47.1 million and \$44.3 million for 2002 and 2001, respectively, in intercompany deposits maintained with the Bank.

(e) Includes \$1.9 billion and \$1.5 billion for 2002 and 2001, respectively, in MSR's and the related hedge.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

The following reconciles the above table to the amounts shown on the consolidated financial statements (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Net interest income after provision for loan losses:		
Total net interest income for reportable segments	\$ 393,309	\$ 340,057
Elimination of intersegment net interest income	<u>(25,628)</u>	<u>(29,585)</u>
Total	<u>\$ 367,681</u>	<u>\$ 310,472</u>
Noninterest income:		
Total noninterest income for reportable segments	\$ 97,928	\$ 67,719
Elimination of intersegment servicing fees	<u>(9,634)</u>	<u>(8,488)</u>
Total	<u>\$ 88,294</u>	<u>\$ 59,231</u>
Noninterest expense:		
Total noninterest expense for reportable segments	\$ 233,698	\$ 232,298
Elimination of intersegment expense	<u>(1,160)</u>	<u>(1,160)</u>
Total	<u>\$ 232,538</u>	<u>\$ 231,138</u>
Pre-tax contribution:		
Total contributions for reportable segments	\$ 257,539	\$ 175,478
Elimination of intersegment contributions	<u>(34,102)</u>	<u>(36,913)</u>
Total	<u>\$ 223,437</u>	<u>\$ 138,565</u>
Total assets at period end:		
Total assets for reportable segments	\$59,590,909	\$66,849,630
Elimination of intersegment borrowings	<u>(5,427,017)</u>	<u>(5,040,038)</u>
Elimination of intersegment deposits	<u>(47,104)</u>	<u>(44,313)</u>
Total	<u>\$54,116,788</u>	<u>\$61,765,279</u>

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

(6) Loans Receivable, Net

Loans receivable, net, included the following (in thousands):

	<u>March 31, 2002</u>	<u>December 31, 2001</u>
Real estate loans:		
1-4 unit residential	\$28,666,029	\$29,546,035
Multi-family residential	4,307,206	4,130,287
Commercial real estate	2,311,530	2,354,919
Land	13,415	14,055
Construction	<u>1,659</u>	<u>2,495</u>
Total real estate loans	<u>35,299,839</u>	<u>36,047,791</u>
Equity-line	700,712	639,297
Other consumer loans	252,677	283,434
Auto loans, net (a)	1,968,605	1,917,591
Commercial loans	<u>720,016</u>	<u>693,114</u>
Total consumer and other loans	<u>3,642,010</u>	<u>3,533,436</u>
Total loans receivable	<u>38,941,849</u>	<u>39,581,227</u>
Deferred loan fees, costs, discounts and premiums, net	237,737	243,120
Allowance for loan losses	(482,884)	(497,298)
Purchase accounting adjustments, net	<u>7,060</u>	<u>8,574</u>
Total loans receivable, net	<u>\$38,703,762</u>	<u>\$39,335,623</u>

(a) \$813.2 million, or 41% and \$766.0 million, or 40% of this portfolio, represents prime product as of March 31, 2002 and December 31, 2001, respectively.

(7) Intangible Assets

Upon adopting SFAS No. 142, management reviewed the records from the Company's various acquisitions. At March 31, 2002, the Company's goodwill and other intangible assets totalled \$639.7 million. Of this amount, \$590.4 million represents goodwill that is no longer being amortized as of January 1, 2002 pursuant to SFAS No. 142. The remaining \$49.3 million represents other intangible assets that continue to be amortized. In addition, the Company held MSR balances in the amount of \$1,778.7 million at March 31, 2002.

The following table provides details on intangible assets including MSRs:

	<u>As of March 31, 2002</u>			<u>As of December 31, 2001</u>		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(dollars in thousands)					
Amortizable intangible assets:						
Unidentifiable intangibles	\$ 64,451	\$ (16,106)	\$ 48,345	\$ 64,451	\$ (15,030)	\$ 49,421
Core deposit intangibles	<u>5,513</u>	<u>(4,602)</u>	<u>911</u>	<u>5,513</u>	<u>(4,511)</u>	<u>1,002</u>
Other intangible assets	69,964	(20,708)	49,256	69,964	(19,541)	50,423
MSRs	2,997,674 (a)	(1,219,023)	1,778,651 (a)	2,728,643 (a)	(1,104,696)	1,623,947 (a)
Goodwill	<u>--</u>	<u>--</u>	<u>--</u>	<u>876,890</u>	<u>(286,470)</u>	<u>590,420</u>
Total amortizable intangible assets	<u>\$3,067,638</u>	<u>\$(1,239,731)</u>	<u>\$1,827,907</u>	<u>\$3,675,497</u>	<u>\$(1,410,707)</u>	<u>\$2,264,790</u>
Unamortizable goodwill	<u>\$ 876,890</u>	<u>\$ (286,470)</u>	<u>\$ 590,420</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

(Continued)

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

- (a) After deducting \$180.5 million and \$153.3 million for the valuation allowance at March 31, 2002 and December 31, 2001, respectively.

As of March 31, 2002, all of the Company's goodwill, totalling \$590.4 million, is included in the community-banking reporting segment. There were no changes in the balance of goodwill from December 31, 2001 to March 31, 2002. Intangible acquisitions during the period were as follows:

	Three Months Ended March 31,			
	2002		2001	
	Gross Carrying Value	Weighted Average Maturity (in years)	Gross Carrying Value	Weighted Average Maturity (in years)
	(dollars in thousands)			
MSRs originated and purchased during the period	\$244,354	7.1	\$100,519	6.8

During the first quarter of 2002, the Company reviewed the expected present value of future cash flows for all reporting units with recorded goodwill and determined that the carrying value of the goodwill was not impaired. Actual and estimated future amortization expense is as follows:

	Unidentifiable Intangibles	Core Deposit Intangibles	MSRs	Goodwill	Total
	(in thousands)				
Amortization expense:					
Three months ended March 31, 2002	\$1,076	\$ 91	\$114,325	\$ --	\$115,492
Three months ended March 31, 2001	1,076	91	58,415	13,773	73,355
Estimated amortization expense:					
Nine months ending December 31, 2002	3,228	273	235,940	--	239,441
Year ending December 31,					
2003	4,304	364	223,675	--	228,343
2004	4,304	364	193,157	--	197,825
2005	4,304	364	165,147	--	169,815
2006	4,304	364	140,066	--	144,734
2007	4,304	364	119,080	--	123,748

The impact of the adoption of SFAS No. 142 on earnings was as follows:

	For the Three Months Ended March 31,	
	2002	2001
	(in thousands)	
Reported net income	\$125,403	\$ 95,635
Add back goodwill amortization, net of tax	--	13,713
Adjusted net income	<u>\$125,403</u>	<u>\$109,348</u>

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
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(8) Deposits

A summary of the carrying value of deposits follows (dollars in thousands):

	<u>March 31, 2002</u>	<u>December 31, 2001</u>
Transaction Accounts:		
Non-interest checking	\$ 2,189,140	\$ 2,013,162
Interest-bearing checking	<u>2,275,830</u>	<u>2,139,674</u>
Subtotal checking	4,464,970	4,152,836
Money market	4,808,135	4,614,223
Passbook savings	<u>3,150,328</u>	<u>3,055,766</u>
Total transaction accounts	12,423,433	11,822,825
Certificates of deposit	<u>10,312,058</u>	<u>10,618,260</u>
Total customer deposits	22,735,491	22,441,085
Custodial accounts	2,007,448	2,512,684
Accrued interest payable	39,411	46,184
Purchase accounting	<u>221</u>	<u>329</u>
Total retail deposits	24,782,571	25,000,282
Brokered Deposits	<u>125,039</u>	<u>146,545</u>
Total deposits	<u>\$24,907,610</u>	<u>\$25,146,827</u>
Checking deposits (including custodials) as a % of retail deposits	26.1%	26.7%
Transaction accounts (including custodials) as a % of retail deposits	58.2%	57.3%
Checking deposits as a % of customer deposits (excluding custodials)	19.6%	18.5%
Transaction accounts as a % of customer deposits (excluding custodials)	54.6%	52.7%

(9) Accrued Termination and Facilities Costs

In connection with the Golden State Acquisition, the Company recorded liabilities resulting from:

- branch consolidations due to duplicate facilities and
- employee severance and termination benefits due to a planned reduction in force.

The merger and integration plan relating to the Golden State Acquisition was in place on September 11, 1998. Certain of these costs were included in the allocation of purchase price and others were recognized in net income.

The table below summarizes the activity in the liability for the costs related to the plan (in thousands):

	<u>Branch Consolidations</u>	<u>Severance and Termination Benefits</u>	<u>Total</u>
Balance at December 31, 2001	\$14,208	\$12,500	\$26,708
Charges to liability account	<u>(763)</u>	<u>--</u>	<u>(763)</u>
Balance at March 31, 2002	<u>\$13,445</u>	<u>\$12,500</u>	<u>\$25,945</u>

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
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(10) Income Taxes

During the three months ended March 31, 2002, GS Holdings recorded net income tax expense of \$91.3 million.

During the three months ended March 31, 2001, GS Holdings recorded net income tax expense of \$36.2 million, which included a net tax benefit of \$25.8 million. In prior years, an accrued liability was established for the purpose of satisfying assessments that may result from issues arising during audits with various state taxing authorities. As a result of the completion and settlement of audits in various state taxing jurisdictions, additional guidance on the deductibility of covered asset losses, and the then-current assessment of exposure for tax strategies employed for prior years, management reduced its accrued state tax liability by \$39.7 million. The Company also recorded additional Federal tax expense of \$13.9 million due to the reduction of the state tax expense.

(11) Stockholder's Equity

At March 31, 2002, there were 1,000 shares of GS Holdings common stock issued and outstanding.

Dividends on common stock during the three months ended March 31, 2002 and 2001 totalled \$80.0 million and \$50.0 million, respectively.

(12) Executive and Stock Compensation

In the first quarter of 2002 and 2001, Golden State granted to certain of the Company's employees non-qualified stock options equivalent to 884,000 and 851,000 shares, respectively, of common stock at a weighted average price of \$27.69 and \$25.67 per share, respectively, under the Stock Plan. These shares generally vest over three years in one-third increments on the anniversary of the grant date. The options generally expire 10 years from the date of grant. No compensation cost was recognized by the Company for these stock options during the three months ended March 31, 2002, in accordance with the intrinsic value accounting methodology prescribed in APB Opinion No. 25, whereby compensation expense to employees is determined based upon the excess, if any, of the market price of the Company's common stock at the measurement date over the exercise price of the award.

During the three months ended March 31, 2002, 107,766 options were exercised and 32,680 options were cancelled or expired under all plans. During the three months ended March 31, 2001, 63,516 options were exercised and 17,245 options were cancelled or expired under all plans.

At March 31, 2002 and 2001, options to acquire an equivalent of 5,459,153 and 4,441,638 shares and 845,416 and 1,011,416 LTW<sup>TM</sup>s, respectively, remained outstanding under all plans.

On January 22, 2002 and 2001, the Golden State awarded to certain of the Company's employees 112,760 and 99,108 shares, respectively, of restricted stock under the Golden State Bancorp Inc. Omnibus Stock Plan. The market value on the date of the award was \$27.65 and \$26.38 per share, respectively. At March 31, 2002 and 2001, a total of 160,056 and 236,730 restricted shares, respectively, were outstanding. These shares generally vest over two years in one-half increments on the anniversary of the grant date, based upon the continued service of the employee. During the three months ended March 31, 2002, 152,299 and 2,770 restricted shares were vested and cancelled, respectively. During the three months ended March 31, 2001, 109,134 restricted shares were vested and none was cancelled. The compensation expense based on the stock price on the date of these awards was recognized over the vesting period for each service-period tranche of the award on a straight line basis with a corresponding increase to additional paid-in capital. In addition, dividends on restricted stock are recorded as compensation expense with a corresponding increase to additional paid-in capital. During the three months ended March 31, 2002 and 2001, \$0.4 million and \$0.5 million, respectively, in compensation expense was recognized related to such awards. These restricted shares have full voting and dividend rights.



**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
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(13) Commitments, Contingencies and Other Off-balance Sheet Activities

*Credit Related Financial Instruments*

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Listed below are unfunded financial instruments whose contract amounts represent credit risk (in thousands):

	Contract Amounts at	
	<u>March 31, 2002</u>	<u>December 31, 2001</u>
<u>Commitments to extend credit</u>		
Unutilized consumer lines	\$1,571,855	\$1,146,625
Unutilized commercial lines of credit	291,005	263,682
Commercial and standby letters of credit	29,746	24,953

The contracts for the Company's commitments to extend credit expire as follows (in thousands):

<u>Commitments to extend credit</u>	March 31, 2002				
	<u>Contract Amount Expiring in</u>				
	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1 – 3 Years</u>	<u>4 – 5 Years</u>	<u>More Than 5 Years</u>
Unutilized consumer lines	\$1,571,855	\$506,602	\$14,081	\$11,358	\$1,039,814
Unutilized commercial lines of credit	291,005	195,569	72,374	6,889	16,173
Commercial and standby letters of credit	29,746	29,627	119	--	--

The fair value of commitments to extend credit were not significant at either March 31, 2002 or December 31, 2001.

Unutilized consumer lines of credit are commitments to extend credit. These lines are either secured or nonsecured and may be cancelled by the Company if certain conditions of the contract are not met. Many consumer line of credit customers are not expected to fully draw down their total lines of credit and, therefore, the total contractual amount of these lines does not necessarily represent future cash requirements.

Unutilized commitments under commercial lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. All letters of credit issued have expiration dates within three years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments in an amount deemed to be necessary.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

*Off-Balance Sheet Commitments to Originate, Purchase and Sell Loans*

The following is a summary of the Company's pipeline of loans in process and mandatory forward commitments to sell loans that have not been recorded in the Company's balance sheet as they do not meet the definition of a derivative financial instrument. These amounts exclude commitments to extend credit which are summarized above. For more information on derivative instruments, see note 14.

	Contract Amounts at	
	<u>March 31, 2002</u>	<u>December 31, 2001</u>
	(in thousands)	
Commitments to originate loans	\$3,679,558	\$3,937,422
Commitments to purchase loans	1,317,670	3,791,436
Mandatory commitments to sell loans	541,286	679,182

The Company's pipeline of loans in process includes loan applications for both portfolio and non-portfolio loans in various stages of processing that do not meet the definition of a derivative financial instrument. Until all required documentation is provided and underwritten, there is no credit risk to the Company. There is no interest rate risk until a rate commitment is extended by the Company to a borrower. Some of these commitments will ultimately be denied by the Company or declined by the borrower and therefore the commitment amounts do not necessarily represent future cash requirements. On a daily basis, the Company determines what percentage of the rate-locked pipeline of loans in process to hedge. Both the anticipated percentage of the pipeline that is expected to fund and the inherent risk position of the portfolio are considered in making this determination.

Mandatory and optional delivery forward commitments to sell loans are used by the Company to hedge its interest rate exposure from the time a loan has a committed rate to the time the loan is sold. These instruments involve varying degrees of credit and interest rate risk. Credit risk on these instruments is controlled through credit approvals, limits and monitoring procedures. To the extent that counterparties are not able to fulfill forward commitments, the Company is at risk for any fluctuations in the market value of the mortgage loans and locked pipeline.

*Off-Balance Sheet Embedded Derivative Options*

The Company also has off-balance sheet embedded options in borrowings as shown in the table below (in thousands):

<u>Instruments</u>	<u>March 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Notional Amount</u>	<u>Estimated Fair Value</u>	<u>Notional Amount</u>	<u>Estimated Fair Value</u>
Interest rate caps	\$2,000,000	\$68,695	\$2,000,000	\$52,163
Interest rate swaptions	1,250,000	9,741	1,250,000	9,448

The off-balance sheet embedded options in borrowings at March 31, 2002 are scheduled to expire as shown in the table below (in thousands):

<u>Instruments</u>	<u>Contract Amount Expiring in:</u>				
	<u>Nine Months Ending December 31, 2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Interest rate caps	\$--	\$400,000	\$350,000	\$1,250,000	\$2,000,000
Interest rate swaptions	--	150,000	--	1,100,000	1,250,000

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
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*Commitments and Contingencies*

At March 31, 2002, the Bank had pledged, as collateral, securities as detailed below (in thousands):

	Securities <u>Available for Sale</u>	Mortgage-backed Securities <u>Available for Sale</u>	Mortgage-backed Securities <u>Held to Maturity</u>	Commercial Paper <u>Investments</u>
Provide credit enhancements for certain bond-financed real estate projects originated by Old FNB	\$25,446	\$ 11,409	\$ 7,219	\$ --
Pledged securities for principal and interest on Bank loan securitization	--	182,320	7,077	--
Guarantee credit enhancements on multi-family bond issues and loans securitized by FNMA and FHLMC	1,031	122,257	26,345	--
Guarantee credit enhancements on loans transferred as part of securitization transactions by the Bank	--	--	--	28,946
Guarantee state and local agency deposits, and certain deposits with the Federal Reserve Bank	2,683	312,126	37,386	--
Cover the margin on interest rate swap agreements	--	142,338	55,511	--
Secure various other obligations	--	2,799,843	770,078	--

At March 31, 2002, \$25.0 billion in residential loans, \$3.7 billion in multifamily loans and \$1.6 billion in commercial real estate loans were pledged as collateral for FHLB advances.

At March 31, 2002, loans receivable included approximately \$5.0 billion of loans that had the potential to experience negative amortization.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
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(14) On-Balance Sheet Derivative Instruments and Hedging Activities

*Interest Rate Risk Management – Risk Management Policies – Cash Flow Hedging Instruments and Fair Value Hedging Instruments*

The Company monitors the sensitivity of its NPV and net income under various interest rate scenarios and manages this risk. Quarterly, the Company simulates the NPV and net income expected to be earned over the next twelve months. Market interest rates are projected at various levels to estimate the impact on interest-earning assets, interest-bearing liabilities and mortgage prepayment speeds (which affect the MSR asset). The Company may use derivatives to reduce the volatility of NPV and net income within certain ranges of projected changes in interest rates. The Company evaluates the effectiveness of a derivative by measuring the cost of such an agreement in relation to the reduction in NPV and net income volatility within an assumed range of interest rates.

*Interest Rate Risk Management – Cash Flow Hedging Instruments – Balance Sheet Hedges*

Objectives and Context

The Company uses variable-rate debt including FHLB advances and Repos as a source of funds for lending and investment activities and other general business purposes. Interest payments on this debt may change if interest rates change. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases.

Management hedges a significant portion of its variable-rate interest payments to limit the effect of changing interest rates.

Strategies

Management enters into derivative instruments agreements to manage fluctuations in cash flows resulting from interest rate risk. These instruments include interest rate swaps.

The interest rate swaps change the variable-rate cash flow exposure on the short-term FHLB advances and Repos to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating fixed-rate FHLB advances and Repos.

Results

Hedges of FHLB advances and Repos were 100% effective for the quarter ended March 31, 2002. The Company hedges the entire amount of the change in fair value of the liabilities with the entire amount of the change in fair value of the derivative instruments.

Fair value changes in interest rate swap hedging instruments relating to cash flows associated with FHLB advances and Repos are reported in OCI. These amounts are then reclassified into interest expense as a yield adjustment in the same period in which the related interest on the FHLB advances and Repos affects earnings. The net amount of OCI reclassified into interest expense during the first quarter of 2002 and 2001, was \$41.9 million and \$5.5 million, respectively.

As of March 31, 2002 and 2001, approximately \$55.2 million and \$36.7 million of losses reported in OCI related to the interest rate swaps were expected to be reclassified into interest expense as a yield adjustment of the hedged FHLB advances and Repos during the twelve month period ending March 31, 2003 and 2002, respectively.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
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*Interest Rate Risk Management – Fair Value Hedging Instruments – Mortgage Servicing Rights Hedges*

Objectives and Context

The Company purchases and originates MSR as a source of fee income. MSR expose the Company to the variability of their fair value due to changes in the level of prepayments and other variables. The carrying value of MSR are first adjusted by the calculated change in the fair value of the MSR being hedged and are then recorded at the lesser of their amortized cost or fair value.

Management limits the variability in the fair value of a portion of its MSR asset by hedging the change in fair value of the servicing rights asset associated with fixed-rate, non-prepayment penalty loans for which it has recorded MSR. The Company determines appropriate coverage levels, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in this asset to other assets of the Company.

Strategies

The Company utilizes interest rate swaps, PO swaps, interest rate floors, and swaptions to hedge the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes. Although the Company hedges the change in value of its MSR, its hedge coverage ratio does not equal 100%. The Company keeps hedge coverage ratios at acceptable risk levels, which may vary depending on current and expected interest rate movement.

Interest rate swap agreements are contracts to exchange quarterly or semi-annual floating rate payments for fixed-rate payments. The notional amount of the contracts, on which the payments are based, are not exchanged. The primary risks associated with interest rate swaps are the ability of the counterparties to meet the terms of the contract and the possibility that swap rates may not move in an inverse manner or in an amount equal to mortgage rate movements.

PO swap agreements simulate the ownership of a PO strip, the value of which is affected directly by prepayment rates themselves in an inverse manner to the servicing rights, which act in a manner similar to IO strips. Under a PO swap agreement, the counterparty to the transaction purchases a PO strip and places the PO strip in a trust. The contracts executed prior to December 31, 1998 call for the Company to pay floating interest to the counterparty based on:

- (a) an index tied to one month LIBOR and
- (b) the amortized notional balance of the swap.

The contracts call for the Company to receive cash from the counterparty based on the cash flows received from the PO strip. For PO swap agreements executed after December 31, 1998, the agreement also requires the PO swap to be marked to market value. A decrease in the market value of the PO swap requires the Company to increase the amount paid to the counterparty and an increase in the market value requires the counterparty to increase its payment to the Company. The amounts to be paid and to be received are then netted together each month. The nature of this instrument results in increased cash flows and positive changes in the value of the PO swap during a declining interest rate environment. This positive change in the value of the PO swap is highly correlated to prepayment activity. PO swap agreements present yield curve risk to the extent that short term interest rates (which impact the cash amount that the Company pays on the PO swap to the counterparty) rise while long term rates (which drive prepayment rates) stay the same. A third type of risk associated with PO swaps is the ability of the counterparties to meet the terms of the contract.

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Interest rate floors are interest rate protection instruments that involve payment from the seller to the buyer of an interest differential. This differential is the difference between a long-term rate (e.g., 10-year Constant Maturity Swaps in 2002 and 2001) and an agreed-upon rate, the strike rate, applied to a notional principal amount. By purchasing a floor, the Company will be paid the differential on a monthly basis by a counterparty, when the current long-term rate falls below the strike level of the agreement. The fair value of interest rate floor agreements is included in derivative assets or liabilities. Interest rate floors are subject to basis risk because of differences in movements of mortgage and LIBOR rates, market volatility and the impact of changes in the yield curve. In addition, a credit risk associated with purchased interest rate floor agreements is the ability of the counterparties to meet the terms of the contract.

A swaption is an over-the-counter option that provides the right, but not the obligation, to enter into an interest rate swap agreement at predetermined terms at a specified time in the future. Swaptions are subject to basis risk because of differences in movements of mortgage and LIBOR rates, market volatility and the impact of changes in the yield curve. In addition, credit risk associated with swaptions is the ability of the counterparties to meet the terms of the contract.

Results

Risk management results related to the hedging of MSR's are summarized below and are included in the caption entitled "Loan servicing fees, net" in the accompanying consolidated statements of income (in thousands). The net gain or loss represents the ineffectiveness of the hedges.

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
(Loss) gain on designated derivative contracts	\$(32,497)	\$ 33,597
Increase (decrease) in value of designated MSR's	<u>51,777</u>	<u>(31,192)</u>
Net gain on derivatives used to hedge MSR's	<u>\$ 19,280</u>	<u>\$ 2,405</u>

*Interest Rate Risk Management – Fair Value Hedging Instruments – Warehouse Loans*

Objectives and Context

The Company, as part of its traditional real estate lending activities, originates fixed-rate 1-4 unit residential loans for sale in the secondary market. At the time of origination, management identifies loans it plans to sell. These warehoused loans have been classified as loans held for sale, net, in the consolidated balance sheet and are carried at fair market value, less the values associated with servicing (for those loans which are hedged) or at the lower of aggregate amortized cost or fair market value (for those loans which are not hedged). These loans expose the Company to the variability of their fair value due to changes in interest rates. If interest rates increase, the value of the loans decreases. Conversely, if interest rates decrease, the value of the loans increases.

Management limits the variability of a major portion of the change in fair value of its loans held for sale by hedging substantially all of its warehoused loans held for sale to third parties.

Strategies

Management employs forward loan sale hedging techniques to minimize the interest rate and pricing risks associated with the origination and sale of such warehoused loans.

The forward loan sales lock in the price for the sale of either specific loans held for sale or a generic group of loans held for sale.

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
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Results

Risk management results related to the hedging of warehouse loans are summarized below and are included in the caption entitled “Gain on sale, settlement and transfer of loans, net” in the accompanying consolidated statements of income (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Transition adjustment upon adoption of SFAS No. 133	\$ --	\$ 3,834
Unrealized loss on designated forward loan sale commitments recognized	(13,518)	(1,680)
Increase in value of warehouse loans	<u>18,710</u>	<u>1,405</u>
Net hedge ineffectiveness	<u>\$ 5,192</u>	<u>\$ 3,559</u>

*Derivative Instruments Not Designated as Hedging Instruments*

Purpose - Interest Rate Lock Commitments and Forward Loan Sale Commitments

The Company enters into rate lock commitments to extend credit to borrowers for generally a 30-day period for the origination and/or purchase of loans. Some of these rate lock commitments will ultimately expire without being completed. To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these rate lock commitments expose the Company to variability in their fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

To mitigate the effect of this interest rate risk, the Company enters into offsetting derivative contracts, primarily forward loan sale commitments. The forward loan sale commitments lock in an interest rate and price for the sale of loans similar to the specific rate lock loan commitments classified as derivatives. Both the rate lock commitments and the forward loan sale commitments are undesignated derivatives, and accordingly are marked to market through earnings.

Risk management results related to the undesignated hedging of interest rate lock commitments with undesignated forward loan sale commitments are summarized below and are included in the caption entitled “Gain on sale, settlement and transfer of loans, net” in the consolidated statements of income (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Transition adjustment upon adoption of SFAS No. 133	\$ --	\$(2,785)
Unrealized loss on undesignated forward loan sale commitments recognized to income	(1,760)	(976)
Gain on undesignated interest rate loan commitments recognized to income	<u>5,439</u>	<u>113</u>
Net gain (loss) on derivatives	<u>\$ 3,679</u>	<u>\$(3,648)</u>

**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
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*Notional Amounts of Derivatives*

Information pertaining to the notional amounts of the Company's derivative financial instruments utilized in both MSR and balance sheet hedging is as follows (in thousands). The fair values of these derivative financial instruments were recorded in the Company's balance sheet in accordance with SFAS No. 133.

	March 31, 2002		December 31, 2001	
	Notional Amount	Credit Risk (1)	Notional Amount	Credit Risk (1)
Interest rate swaps - borrowings	\$ 4,639,670	\$ --	\$ 4,089,670	\$ --
Interest rate swaps hedging MSRs	440,000	--	2,462,000	7,561
PO swaps	337,669	--	378,928	6,411
Interest rate floors	1,153,000	25,179	3,054,000	78,917
Interest rate swaptions	4,547,000	144,781	4,111,000	183,641
Forward loan sale commitments	3,266,024	21,601	3,980,863	36,879
Interest rate lock commitments	1,574,124	--	1,870,852	--
Other	25,000	--	--	--
Total	<u>\$15,982,487</u>	<u>\$191,561</u>	<u>\$19,947,313</u>	<u>\$313,409</u>

- (1) Credit risk represents the amount of unrealized gain included in derivative assets which is subject to counterparty credit risk. It reflects the effect of master netting agreements and excludes \$109.3 million and \$95.2 million cash collateral held by the Bank at March 31, 2002 and December 31, 2001, respectively.

Derivative financial instruments used for other-than-trading purposes at March 31, 2002 are scheduled to mature as follows (in thousands):

	Notional Amounts						
	Nine Months Ending December 31, 2002	2003	2004	2005	2006	Thereafter	Total
Interest rate swaps - borrowings	\$ 400,000	\$ 715,000	\$2,004,670	\$ 650,000	\$800,000	\$ 70,000	\$ 4,639,670
Interest rate swaps hedging MSRs	--	--	--	--	--	440,000	440,000
PO swaps	99,656	31,983	87,910	--	--	118,120	337,669
Interest rate floors	--	--	--	--	177,000	976,000	1,153,000
Interest rate swaptions	--	2,574,000	1,562,000	411,000	--	--	4,547,000
Forward loan sale commitments	3,266,024	--	--	--	--	--	3,266,024
Interest rate lock commitments	1,574,124	--	--	--	--	--	1,574,124
Other	25,000	--	--	--	--	--	25,000
Total	<u>\$5,364,804</u>	<u>\$3,320,983</u>	<u>\$3,654,580</u>	<u>\$1,061,000</u>	<u>\$977,000</u>	<u>\$1,604,120</u>	<u>\$15,982,487</u>



**GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

(15) Recent Accounting Pronouncements

*Goodwill and Other Intangible Assets*

On January 1, 2002, the Company adopted SFAS No. 142. SFAS No. 142 supersedes APB Opinion No. 17 and establishes new accounting standards for both identifiable and unidentifiable intangible assets acquired in a business combination, including goodwill, but does not address internally developed intangible assets. It requires recognition of goodwill as an asset but does not permit amortization of goodwill as previously required by APB Opinion No. 17. Instead, goodwill is tested for impairment at a level referred to as a reporting unit. A reporting unit is the same level as, or one level below, an operating segment (as that term is used in SFAS No. 131).

Goodwill is tested for impairment annually and on an interim basis if an event or circumstance occurs between annual tests that might reduce the fair value of a reporting unit below its carrying value. An example of such an event or circumstance may include an adverse change in the business climate or market, a legal factor, an action by regulators, an introduction of competition, or a loss of key personnel. Goodwill would also be tested for impairment on an interim basis when:

- (a) a more-likely-than-not expectation exists that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of,
- (b) a significant asset group within a reporting unit is tested for recoverability under SFAS No. 121, or
- (c) a subsidiary of that reporting unit has recognized a goodwill impairment loss.

The fair value of each reporting unit would not have to be recomputed every year if the components of the reporting unit had not changed since the previous fair value computation, the previous fair value amount exceeded the carrying amount of the reporting unit by a substantial margin, and no evidence exists indicating that the current fair value of the reporting unit may be less than its current carrying amount.

Goodwill is tested for impairment using a two-step approach. The first step is a comparison of the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and no further work is required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test must be performed. The second step of the impairment test is a comparison of the implied fair value of goodwill to its carrying amount. If the implied fair value of goodwill is less than its carrying amount, goodwill is considered impaired and an impairment loss recognized. The impairment loss would be measured as the amount by which the carrying amount of goodwill exceeds its implied fair value.

Acquired intangible assets other than goodwill are amortized over their useful economic lives and reviewed for impairment in accordance with SFAS No. 144.

The impact of the adoption of SFAS No. 142 increases GAAP earnings by \$13.7 million per quarter in 2002.

*Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*

In December 2001, the AICPA issued SOP 01-6. SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001. SOP 01-6 reconciles the specialized accounting and financial reporting guidance established in the existing Banks and Savings Institutions Guide, Audits of Credit Unions Guide, and Audits of Finance Companies Guide. The SOP eliminates differences in accounting and disclosure established by the respective guides and carries forward accounting guidance for transactions determined to be unique to certain financial institutions. The adoption of this pronouncement has not had a material impact on the Company's results of operations or financial condition.

## **Item 2. Management's Narrative Analysis of Results of Operations**

*Forward-Looking Statements.* This quarterly report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that pertain to our future operating results. Words such as "anticipate," "believe," "expect," "intend" and other similar expressions are intended to identify these statements. Forward-looking statements are not historical facts and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. Our actual results could differ materially from those in the forward-looking statements due to such factors as (i) portfolio concentrations; (ii) interest rate changes, including changes in short-term interest rates, the shape of the yield curve and the Treasury-Eurodollar spread; (iii) changes in asset prepayment speeds; (iv) changes in our competitive and regulatory environments; and (v) changes in the availability of net operating loss carryovers and deferred tax liabilities. See "Business--Factors That May Affect Future Results" in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 for a discussion of these factors in greater detail. We assume no obligation to update any of our forward-looking statements.

### **Critical Accounting Policies**

In preparing its consolidated financial statements, the Company is required to make judgments and estimates that may have a significant impact upon its financial results. The Company's valuation of its MSRs and its determination of the adequacy of its allowance for loan losses are particularly subject to management's judgment and estimates. The Company's accounting policies for these two areas are discussed at length in notes 2(m) and 2(e) of the Company's Notes to Consolidated Financial Statements included in the Company's 2001 Annual Report on Form 10-K.

### **Overview**

GS Holdings, formerly FN Holdings, a wholly owned subsidiary of Golden State, is a holding company whose only significant asset is all of the common and preferred stock of the Bank.

The Company, headquartered in San Francisco, California, provides diversified financial services to consumers and small businesses in California and Nevada, primarily:

- (a) retail branches that provide deposit products such as demand, transaction and savings accounts, and investment products such as mutual funds, annuities and insurance; and
- (b) mortgage banking activities, including originating and purchasing 1-4 unit residential loans for sale or retention, servicing loans for itself and others and, to a lesser extent, originating and/or purchasing commercial real estate, commercial and consumer loans for investment.

The Company's revenues are derived from:

- (a) interest earned on loans and securities;
- (b) gains on sales of loans and other investments, fees received in connection with loan servicing and securities brokerage; and
- (c) other customer service transactions.

Expenses primarily consist of interest on customer deposit accounts and borrowings, and general and administrative expenses including compensation and benefits, occupancy and equipment, professional fees and other general administrative expenses.

### *Net Income*

GS Holdings reported net income for the three months ended March 31, 2002 of \$125.4 million, compared with net income of \$95.6 million for the corresponding period in 2001. The Bank's efficiency ratio was 47.61% for the three months ended March 31, 2002, compared to 52.93% for the comparable period in 2001.

The Company adopted SFAS No. 142 effective January 1, 2002, which requires that goodwill no longer be amortized. The effect of the adoption was to reduce goodwill amortization by \$13.8 million for the three months ended March 31, 2002 compared to the same period a year ago. Excluding the effect of the adoption of SFAS No. 142, net income for the three months ended March 31, 2001 was \$109.3 million.

### *Financial Condition*

During the three months ended March 31, 2002, consolidated total assets decreased to \$54.1 billion from \$56.5 billion and total liabilities decreased to \$50.9 billion from \$53.4 billion at December 31, 2001. Mortgage-backed securities, loans receivable and loans held for sale declined \$1.3 billion, \$631.9 million and \$409.5 million, respectively, during the three month period, while securities increased \$1.1 million during the same period. This shift in loans and mortgage-backed securities is primarily due to high repayment rates in light of the declining interest rate environment. Deposits decreased \$239.2 million during the three months ended March 31, 2002, including decreases of \$505.2 million in custodial accounts, \$306.2 million in CDs and \$21.5 million in Brokered Deposits, offset by a \$600.6 million increase in transaction accounts. Total borrowings, including securities sold under agreements to repurchase, FHLB advances and other borrowings, declined \$2.1 billion during the three months ended March 31, 2002.

During the three months ended March 31, 2002, stockholder's equity increased \$59.6 million to \$2.7 billion. The increase in stockholder's equity is principally the result of \$125.4 million in net income for the period and \$36.0 million in net unrealized gains, after tax, on derivatives. These amounts are partially offset by \$80.0 million of common stock dividends and \$24.5 million in net unrealized losses, after tax, on securities available for sale.

GS Holdings' non-performing assets, consisting of non-performing loans, net of purchase accounting adjustments, foreclosed real estate, net, and repossessed assets, decreased to \$117.2 million at March 31, 2002 compared with \$124.1 million at December 31, 2001. Total non-performing assets as a percentage of the Bank's total assets was 0.22% at both March 31, 2002 and December 31, 2001.

## Results of Operations

*Three months ended March 31, 2002 versus three months ended March 31, 2001*

The following table shows the Company's consolidated average balance sheets, with the related interest income, interest expense and the average interest rates for the periods presented. Average balances are calculated on a daily basis.

	Three Months Ended March 31, 2002		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities and interest-bearing deposits in banks (2)	\$ 262	\$ 2	2.91%
Mortgage-backed securities available for sale	6,109	93	6.06
Mortgage-backed securities held to maturity	1,329	21	6.45
Loans held for sale, net	2,698	42	6.20
Loans receivable, net:			
Residential	29,014	448	6.18
Commercial real estate	6,469	116	7.21
Consumer	945	15	6.30
Automobile	1,939	60	12.56
Commercial banking	<u>701</u>	<u>10</u>	5.72
Loans receivable, net	39,068	649	6.66
FHLB stock	<u>1,390</u>	<u>21</u>	6.08
Total interest-earning assets	50,856	<u>828</u>	6.52%
Noninterest-earning assets	<u>4,259</u>		
Total assets	<u>\$55,115</u>		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY			
Interest-bearing liabilities:			
Deposits	\$24,811	\$135	2.21%
Securities sold under agreements to repurchase (3)	2,235	21	3.82
Borrowings (3)	23,620	303	5.17
Other	<u>161</u>	<u>1</u>	1.75
Total interest-bearing liabilities	50,827	<u>460</u>	3.65%
Noninterest-bearing liabilities	1,176		
Minority interest	495		
Stockholder's equity	<u>2,617</u>		
Total liabilities, minority interest and stockholder's equity	<u>\$55,115</u>		
Net interest income		<u>\$368</u>	
Interest rate spread (4)			<u>2.87%</u>
Net interest margin			<u>2.87%</u>
Return on average assets			<u>0.91%</u>
Return on average common equity			<u>19.17%</u>
Return on tangible common equity			<u>25.61%</u>
Average equity to average assets			<u>4.75%</u>

Three Months Ended March 31, 2001			
	Average Balance	Interest	Average Rate
(dollars in millions)			
ASSETS			
Interest-earning assets (1):			
Securities and interest-bearing deposits in banks (2)	\$ 1,294	\$ 20	6.09%
Mortgage-backed securities available for sale	10,769	181	6.72
Mortgage-backed securities held to maturity	1,740	37	8.60
Loans held for sale, net	1,136	20	7.09
Loans receivable, net:			
Residential	31,645	570	7.20
Commercial real estate	6,033	128	8.51
Consumer	860	22	9.95
Automobile	1,637	46	11.40
Commercial banking	<u>550</u>	<u>12</u>	9.18
Loans receivable, net	40,725	778	7.65
FHLB stock	<u>1,379</u>	<u>23</u>	6.78
Total interest-earning assets	57,043	<u>1,059</u>	7.44%
Noninterest-earning assets	<u>3,463</u>		
Total assets	<u>\$60,506</u>		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY			
Interest-bearing liabilities:			
Deposits	\$23,656	\$ 241	4.13%
Securities sold under agreements to repurchase (3)	4,166	68	6.52
Borrowings (3)	<u>28,812</u>	<u>440</u>	6.16
Total interest-bearing liabilities	56,634	<u>749</u>	5.34%
Noninterest-bearing liabilities	1,101		
Minority interest	495		
Stockholder's equity	<u>2,276</u>		
Total liabilities, minority interest and stockholder's equity	<u>\$60,506</u>		
Net interest income		<u>\$ 310</u>	
Interest rate spread (4)			<u>2.10%</u>
Net interest margin			<u>2.14%</u>
Return on average assets			<u>0.63%</u>
Return on average common equity			<u>16.81%</u>
Return on tangible common equity			<u>27.77%</u>
Average equity to average assets			<u>3.76%</u>

- (1) Non-performing assets are included in the average balances for the periods indicated.
- (2) Includes interest-bearing deposits in other banks and securities purchased under agreements to resell.
- (3) Interest and average rate include the impact of interest rate swaps.
- (4) Interest rate spread represents the difference between the average rates of total interest-earning assets and total interest-bearing liabilities.

The following table shows the changes in interest income and expense due to changes in rate and volume. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to volume (change in average outstanding balance multiplied by the prior period's rate) and rate (change in average interest rate multiplied by the prior period's volume). Changes attributable to both volume and rate have been allocated proportionately.

	Three Months Ended March 31, 2002 vs. 2001		
	Increase (Decrease) Due to		
	<u>Volume</u>	<u>Rate</u>	<u>Net</u>
(in millions)			
<b>INTEREST INCOME:</b>			
Securities and interest-bearing deposits in banks	\$ (9)	\$ (9)	\$ (18)
Mortgage-backed securities available for sale	(72)	(16)	(88)
Mortgage-backed securities held to maturity	(8)	(8)	(16)
Loans held for sale, net	24	(2)	22
Loans receivable, net	(17)	(112)	(129)
FHLB stock	--	(2)	(2)
Total	<u>(82)</u>	<u>(149)</u>	<u>(231)</u>
<b>INTEREST EXPENSE:</b>			
Deposits	362	(468)	(106)
Securities sold under agreements to repurchase	(26)	(21)	(47)
Borrowings	(69)	(68)	(137)
Other	<u>1</u>	<u>--</u>	<u>1</u>
Total	<u>268</u>	<u>(557)</u>	<u>(289)</u>
Change in net interest income	<u><u>\$ (350)</u></u>	<u><u>\$ 408</u></u>	<u><u>\$ 58</u></u>

**Interest Income.** Total interest income was \$827.7 million for the three months ended March 31, 2002, a decrease of \$231.4 million from the three months ended March 31, 2001. Total interest-earning assets for the three months ended March 31, 2002 averaged \$50.9 billion, compared to \$57.0 billion for the corresponding period in 2001. The decrease in interest-earning assets is primarily a result of a decline in mortgage-backed securities, principally due to management's decision to sharply reduce purchases, and net loan run off, as well as decreased securities volume. These decreases were partially offset by an increase in loans held for sale due to heightened borrower refinancing activity in the declining interest rate environment. The yield on total interest-earning assets during the three months ended March 31, 2002 decreased to 6.52% from 7.44% for the three months ended March 31, 2001, primarily due to the repricing of loans and mortgage-backed securities available for sale at lower rates. At March 31, 2002, 12% of the Company's portfolio loans were tied to COFI indices, 13% to Treasury-based indices and 48% were "hybrid" ARMs - fixed for three to ten years and then adjusting annually. Twenty-three percent of the portfolio was fixed. The remaining 4% of the portfolio was in other adjustable-rate products.

GS Holdings earned \$649.2 million of interest income on loans receivable for the three months ended March 31, 2002, a decrease of \$128.6 million from the three months ended March 31, 2001. The average balance of loans receivable was \$39.1 billion for three months ended March 31, 2002, compared to \$40.7 billion for the same period in 2001. The weighted average yield on loans receivable decreased to 6.66% for the three months ended March 31, 2002 from 7.65% for the three months ended March 31, 2001. The decrease in the average balance reflects the sharp run off of residential loans during a period of high refinancing activity. The decrease in the weighted average yield reflects the repricing of variable-rate loans, a decrease in the prime rate on commercial banking loans and comparatively lower market interest rates during the three months ended March 31, 2002, partially offset by a higher yield on auto loans purchased after July 1, 2001, which are recorded on a gross-coupon basis, rather than a credit-adjusted yield basis. The impact of this change on net interest income during the three months ended March 31, 2002 was to increase interest income by \$8.8 million.

Loan production is detailed in the table below (in thousands):

	<u>For the Quarter Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Loans funded:		
Residential real estate loans:		
Adjustable-rate	\$1,929,931	\$1,600,331
Fixed-rate	<u>6,295,662</u>	<u>2,491,377</u>
Total residential real estate loans	8,225,593	4,091,708
Commercial real estate loans	440,572	331,380
Commercial loans	295,885	226,243
Consumer nonmortgage loans	236,817	178,274
Auto loans (a)	<u>280,503</u>	<u>325,428</u>
Total loans funded	<u>\$9,479,370</u>	<u>\$5,153,033</u>
Residential real estate loans purchased	<u>\$1,127,607</u>	<u>\$1,165,495</u>

(a) Approximately 50% and 46% of this volume was in prime product; 50% and 54% in sub-prime product for the three months ended March 31, 2002 and 2001, respectively.

GS Holdings earned \$41.8 million of interest income on loans held for sale for the three months ended March 31, 2002, an increase of \$21.7 million from the three months ended March 31, 2001. The average balance of loans held for sale was \$2.7 billion for the three months ended March 31, 2002, an increase of \$1.6 billion from the comparable period in 2001, primarily attributed to increased originations of residential fixed-rate loans as a result of heightened borrower refinancing activity in the declining interest rate environment. Fixed-rate production for sale totalled \$6.2 billion during the three months ended March 31, 2002, an increase of 173% over the \$2.3 billion originated during the comparable period in 2001. The weighted average yield on loans held for sale decreased to 6.20% for the three months ended March 31, 2002 from 7.09% for the three months ended March 31, 2001, primarily due to declining market interest rates.

Interest income on mortgage-backed securities available for sale was \$92.6 million for the three months ended March 31, 2002, a decrease of \$88.4 million from the three months ended March 31, 2001. The average portfolio balance decreased \$4.7 billion, to \$6.1 billion for the three months ended March 31, 2002 compared to the same period in 2001. The weighted average yield on these assets decreased from 6.72% for the three months ended March 31, 2001 to 6.06% for the three months ended March 31, 2002. The decrease in the volume is primarily attributed to management's decision to sharply reduce purchases, coupled with high repayments and sales of mortgage-backed securities. The decrease in the weighted average yield primarily reflects the repricing of variable-rate securities at lower rates.

Interest income on mortgage-backed securities held to maturity was \$21.4 million for the three months ended March 31, 2002, a decrease of \$16.0 million from the three months ended March 31, 2001. The average portfolio balance decreased \$0.4 billion, to \$1.3 billion for the three months ended March 31, 2002 compared to the same period in 2001, primarily due to repayments. The weighted average yields for the three months ended March 31, 2002 and 2001 were 6.45% and 8.60%, respectively. The decrease in the weighted average yield is primarily the result of the repricing of variable-rate securities at lower rates.

Interest income on securities and interest-bearing deposits in other banks was \$1.9 million for the three months ended March 31, 2002, a decrease of \$17.8 million from the three months ended March 31, 2001. The average portfolio balance was \$0.3 billion and \$1.3 billion for the three months ended March 31, 2002 and 2001, respectively. The decrease in the volume is primarily attributed to payments and maturities of securities. The lower weighted average yield of 2.91% for the three months ended March 31, 2002 compared to 6.09% for the three months ended March 31, 2001 reflects the repricing of securities at lower rates.

Dividends on FHLB stock were \$20.8 million for the three months ended March 31, 2002, a decrease of \$2.2 million from the three months ended March 31, 2001. The average balance outstanding was \$1.4 billion for each of the three months ended March 31, 2002 and 2001. The weighted average dividend on FHLB stock declined to 6.08% for the three months ended March 31, 2002 from 6.78% for the three months ended March 31, 2001.

**Interest Expense.** Total interest expense was \$460.0 million for the three months ended March 31, 2002, a decrease of \$288.6 million from the three months ended March 31, 2001. The decrease is primarily due to declining market interest rates and a reduction in borrowings under FHLB advances and securities sold under agreements to repurchase, partially offset by additional deposits.

Interest expense on deposits, including Brokered Deposits, was \$135.1 million for the three months ended March 31, 2002, a decrease of \$105.7 million from the three months ended March 31, 2001. The average balance of deposits outstanding increased from \$23.7 billion for the three months ended March 31, 2001 to \$24.8 billion for the three months ended March 31, 2002. The increase in the average balance is primarily attributed to increases in the average balances of money market accounts, custodial accounts, retail customer checking accounts and savings account balances, partially offset by a decline in CDs. The overall weighted average cost of deposits decreased to 2.21% for the three months ended March 31, 2002 from 4.13% for the three months ended March 31, 2001, primarily due to declining market interest rates and a shift in the mix of deposits, with higher average balances of lower rate money market, custodial, checking and savings accounts, and a lower average balance of higher rate CDs during the first quarter of 2002.

Interest expense on securities sold under agreements to repurchase totalled \$21.4 million for the three months ended March 31, 2002, a decrease of \$46.6 million from the three months ended March 31, 2001. The average balance of such borrowings for the three months ended March 31, 2002 and 2001 was \$2.2 billion and \$4.2 billion, respectively. The decrease in the average balance is primarily the result of maturities. The weighted average interest rate on these instruments decreased to 3.82% for the three months ended March 31, 2002 from 6.52% for the three months ended March 31, 2001, primarily due to maturities of higher fixed-rate borrowings and the repricing of variable-rate borrowings at lower rates.

Interest expense on borrowings totalled \$302.8 million for the three months ended March 31, 2002, a decrease of \$137.0 million from the three months ended March 31, 2001. The average balance outstanding for the three months ended March 31, 2002 and 2001 was \$23.6 billion and \$28.8 billion, respectively. The weighted average interest rate on these instruments decreased to 5.17% for the three months ended March 31, 2002 from 6.16% for the three months ended March 31, 2001. The decrease in the average volume is primarily the result of maturities, while the decrease in the weighted average rate is primarily due to declining market interest rates.

**Net Interest Income.** Net interest income was \$367.7 million for the three months ended March 31, 2002, an increase of \$57.2 million from the three months ended March 31, 2001. The interest rate spread increased to 2.87% for the three months ended March 31, 2002 from 2.10% for the three months ended March 31, 2001, primarily as a result of declining market interest rates reducing costs of liabilities at a faster rate than the decline in the yield on assets. Lower-costing liabilities were the result of the replacement of higher-rate borrowings and deposits with lower-rate borrowings and deposits as these instruments came due or were repaid. The net interest margin increased to 2.87% for the three months ended March 31, 2002, up 73 bps from the 2.14% reported during the first quarter of 2001.

**Noninterest Income.** Total noninterest income, consisting primarily of loan servicing fees, customer banking fees, gain on sale, settlement and transfer of loans, net, gain on sale of assets, net and other income was \$88.3 million for the three months ended March 31, 2002, representing an increase of \$29.1 million from the three months ended March 31, 2001.



Loan servicing fees for the Company, were \$(8.8) million for the three months ended March 31, 2002, compared to \$(26.7) million the three months ended March 31, 2001. The following table details the components of loan servicing fees, net (in thousands):

	<u>For the Quarter Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Components of loan servicing fees, net:		
Loan servicing fees	\$125,372	\$113,242
Amortization of MSRs	(114,325)	(58,415)
Pass-through Interest Expense	(12,035)	(6,884)
Net gain on MSRs/MSR derivatives (SFAS No. 133)	19,280	2,405
MSR valuation provision	<u>(27,107)</u>	<u>(77,000)</u>
Total loan servicing fees, net	<u>\$ (8,815)</u>	<u>\$(26,652)</u>
Portfolio run off rate (residential portfolio only)	33.9%	20.8%
MSR value run off rate (residential portfolio only)	23.9	16.6
MSR amortization rate (residential portfolio only)	25.3	16.8

As the table reflects, gross loan servicing fees increased \$12.1 million from year-ago levels, which is primarily attributable to the growth of the Company's servicing portfolio and higher ancillary fees. The single-family residential loan servicing portfolio, excluding loans serviced for the Bank, increased from \$83.4 billion at March 31, 2001 to \$88.5 billion at March 31, 2002. The portfolio runoff rate, representing the percentage of the residential portfolio that has been paid off during the year, influences MSR amortization, which increased \$55.9 million in the first quarter of 2002 over the same period in 2001. MSR amortization was also affected by a higher average MSR balance for the three months ended March 31, 2002 compared to the same period in 2001. Pass-through Interest Expense increased \$5.2 million or 75% year over year, also influenced by higher runoff rates. Servicing fee income for the first quarter of 2002 and 2001 includes net pre-tax gains of \$19.3 million and \$2.4 million, respectively, from the impact of SFAS No. 133 pertaining to the MSR fair value hedges. After recording these gains in accordance with SFAS No. 133, the Company determined that the fair value of the MSR asset was less than its carrying value and recorded pre-tax valuation provisions on the MSRs of \$27.1 million and \$77.0 million during the three months ended March 31, 2002 and 2001, respectively. See "—Impact of SFAS No. 133" for further discussion.

Customer banking fees were \$58.1 million for the three months ended March 31, 2002 compared to \$51.3 million for the three months ended March 31, 2001. The following table details the components of customer banking fees and service charges (in thousands):

	<u>For the Quarter Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Components of customer banking fees and service charges:		
Transaction account fees	\$37,583	\$33,109
Other retail customer fees	712	621
Investment sales income	17,380	14,762
Insurance commissions	<u>2,473</u>	<u>2,769</u>
Total customer banking fees and service charges	<u>\$58,148</u>	<u>\$51,261</u>

The increase is primarily attributed to increased emphasis by management on transaction account growth and higher fee income on mutual fund, annuity and other investment and insurance product sales through CFI. 2002 also includes an \$0.8 million reclassification to reflect gross revenues from customer check printing fees rather than net revenues. Transaction accounts (including custodial accounts) as a percentage of retail deposits increased to 58.2% at March 31, 2002, from 49.9% at March 31, 2001.

Gain on sale, settlement and transfer of loans, net totalled \$34.6 million for the three months ended March 31, 2002, an increase of \$29.7 million from the three months ended March 31, 2001. During the three months ended March 31, 2002, California Federal sold \$6.9 billion in single-family mortgage loans with servicing rights retained as part of its ongoing mortgage banking operations at gains of \$21.6 million compared to \$1.5 billion of such sales for the corresponding period in 2001 at gains of \$3.5 million. The overall increase in the volume of loans sold and the related gain is a result of the significant increase in fixed-rate loan originations as a result of the overall decline in market interest rates and increased mortgage refinancing. The results in 2002 include an \$8.9 million unrealized gain on the derivative rate locks, forward loan sale commitments and closed loan inventory from the application of SFAS No. 133.

Noninterest income for the three months ended March 31, 2001 included a gain of \$20.7 million on the non-monetary exchange of Star Systems common stock for 634,520 shares of Concord EFS common stock as a result of Concord's acquisition of Star Systems in February 2001.

**Noninterest Expense.** Total noninterest expense was \$232.5 million for the three months ended March 31, 2002, an increase of \$1.4 million compared to the three months ended March 31, 2001. Excluding the amortization of goodwill and other intangible assets, noninterest expense for the three months ended March 31, 2002 was \$231.4 million, an increase of \$15.2 million over the same period in the prior year. Noninterest expense for the three months ended March 31, 2002 included increases of \$7.0 million in compensation expense, \$3.7 million in other noninterest expense, \$2.5 million in professional fees and \$2.4 million in occupancy and equipment expense. These increases were partially offset by decreases of \$13.8 million in amortization of intangible assets and \$.4 million in foreclosed real estate operations, net.

Compensation and employee benefits expense was \$124.8 million for the three months ended March 31, 2002, an increase of \$7.0 million from the three months ended March 31, 2001. The increase is primarily attributed to an increase in staff (from 7,797 FTE at March 31, 2001 to 8,192 at March 31, 2002) and temporary personnel, primarily in volume-related operating groups, as well as normal salary adjustments.

Professional fees were \$7.3 million for the three months ended March 31, 2002, an increase of \$2.5 million from the three months ended March 31, 2001, primarily due to an overall increase in legal fees related to various legal cases.

Amortization of intangible assets was \$1.2 million for the three months ended March 31, 2002, a decrease of \$13.8 million from the three months ended March 31, 2001, due to the adoption of SFAS No. 142 on January 1, 2002, which requires that goodwill no longer be amortized.

Other noninterest expense was \$55.7 million in 2002 compared to \$52.0 million in 2001. The increase in expenses relates to increases in a number of operating expense categories, including retail back office operations, marketing, data processing systems expense, courier service, bank charges and insurance expense.

**Provision for Income Tax.** During the three months ended March 31, 2002, GS Holdings recorded net income tax expense of \$91.3 million.

During the three months ended March 31, 2001, GS Holdings recorded net income tax expense of \$36.2 million, which included a net tax benefit of \$25.8 million. In prior years, an accrued liability was established for the purpose of satisfying assessments that may result from issues arising during audits with various state taxing authorities. As a result of the completion and settlement of audits in various state taxing jurisdictions, additional guidance on the deductibility of covered asset losses, and the then-current assessment of exposure for tax strategies employed for prior years, management reduced its accrued state tax liability by \$39.7 million. The Company also recorded additional Federal tax expense of \$13.9 million due to the reduction of the state tax expense.

GS Holdings' effective gross federal tax rate was 35% during the three months ended March 31, 2002 and 48% during the three months ended March 31, 2001, while its federal statutory tax rate was 35% during both periods. In 2001, the difference between the effective and statutory rates was primarily the result of additional federal tax liability recorded in conjunction with a reduction in the accrued state tax liability, and non-deductible goodwill amortization. GS Holdings' effective state tax rate was 6% and (22)% during the three months ended March 31, 2002 and 2001, respectively. The effective state tax rate decreased during 2001 as a result of a reduction in the accrued state tax liability.

**Minority Interest.** During each of the three months ended March 31, 2002 and 2001, dividends on the REIT Preferred Stock were recorded totalling \$6.7 million, net of income tax benefit, which will inure to the Company as a result of the deductibility of such dividends for income tax purposes.

**Impact of SFAS No. 133.** On January 1, 2001, the Company adopted SFAS No. 133. The pronouncement impacted several other areas of the financial statements. The table summarizes the activity during the first quarter of 2002 and 2001 below (debit/(credit); in thousands):

	Assets			Liabilities and Equity			Pre-tax Earnings	
	Loans Held for Sale	Residential MSRs	Derivative Assets	Derivative Liabilities	Taxes– Other Liabilities	OCI	Loan Servicing Fees, net	(Gain)/Loss on Sale of Loans
Fair value adjustments:								
MSRs and MSR hedges	\$ --	\$ 51,777	\$ (29,319)	\$ (3,178)	\$ --	\$ --	\$(19,280)	\$ --
Warehouse loans and pipeline hedges	18,710	--	(15,278)	5,439	--	--	--	(8,871)
Cash flow (balance sheet) hedges – swaps	--	--	--	60,849	(24,858)	(35,991)	--	--
Fair Value Adjustments – First Quarter 2002	18,710	51,777	(44,597)	63,110	(24,858)	(35,991)	(19,280)	(8,871)
Other First Quarter 2002 activity:								
MSR hedge additions	--	--	416,887	--	--	--	--	--
MSR hedge sales and maturities	--	--	(508,630)	33,622	--	--	--	--
MSR hedge receipts and payments	--	--	(18,383)	(1,559)	--	--	--	--
Other Activity – First Quarter 2002	--	--	(110,126)	32,063	--	--	--	--
Total Impact from SFAS No. 133 – First Quarter 2002	<u>\$18,710</u>	<u>\$ 51,777</u>	<u>\$(154,723)</u>	<u>\$ 95,173</u>	<u>\$(24,858)</u>	<u>\$(35,991)</u>	<u>\$(19,280)</u>	<u>\$(8,871)</u>
Total Impact from SFAS No. 133 – First Quarter 2001	<u>\$ 5,239</u>	<u>\$(196,080)</u>	<u>\$ 204,663</u>	<u>\$(151,733)</u>	<u>\$ 56,523</u>	<u>\$ 81,844</u>	<u>\$ (2,405)</u>	<u>\$ 89</u>

## **PART II - OTHER INFORMATION**

### **ITEM 1. Legal Proceedings.**

#### *California Federal Goodwill Litigation*

The Bank is the plaintiff in a lawsuit against the Government, the California Federal Goodwill Litigation. In the California Federal Goodwill Litigation, the Bank alleged, among other things, that the Government breached certain contractual commitments regarding the computation of its regulatory capital for which the Bank sought damages and restitution. The Bank's claims arose from changes, mandated by FIRREA, with respect to the rules for computing Old California Federal's regulatory capital.

In late 1997, a Claims Court Judge ruled in favor of the Bank's motion for partial summary judgment as to the Government's liability to the Bank for breach of contract, and a formal order in that regard was subsequently issued. In late 1998, a second Claims Court Judge ruled that California Federal could not meet its burden for proving lost profits damages and ordered that the case proceed to trial on the damage issue of restitution and reliance.

On April 16, 1999, the Claims Court issued its decision on the damages claim against the Government in the California Federal Goodwill Litigation, ruling that the Government must compensate the Bank in the sum of \$23.4 million. The summary judgment liability decision by the first Claims Court Judge was appealed by the Government, and the damage award by the second Claims Court Judge was appealed by the Bank.

On April 3, 2001, the Court of Appeals for the Federal Circuit upheld the summary judgment liability decision and ruled that California Federal be allowed to present evidence regarding damages incurred under the lost profits theory. The case has been remanded back to the Claims Court for a damages trial under the lost profits theory, and trial is currently expected to begin in the first week of September 2002. The Bank intends to vigorously pursue its claim against the Government.

#### *Glendale Goodwill Litigation*

By virtue of the Glen Fed Merger, the Bank is also a plaintiff in a claim against the United States in a second lawsuit, the Glendale Goodwill Litigation. In the Glendale Goodwill Litigation, Glendale Federal sued the Government contending that FIRREA's treatment of supervisory goodwill constituted a breach by the Government of its 1981 contract with the Bank, under which the Bank had merged with a Florida thrift and was permitted to include the goodwill resulting from the merger in its regulatory capital. In 1992, the Claims Court found in favor of Glendale Federal's position, ruling that the Government breached its express contractual commitment to permit Glendale Federal to include supervisory goodwill in its regulatory capital and that Glendale Federal is entitled to seek financial compensation.

The trial began in February 1997 and concluded in September 1998. On April 9, 1999, the Claims Court issued its decision in the Glendale Goodwill Litigation, ruling that the Government must compensate the Bank in the sum of \$908.9 million. This decision was appealed by the Government and the Bank.

On February 16, 2001, the Court of Appeals for the Federal Circuit vacated the trial court's award of damages and remanded the case back to the trial court for determination of total reliance damages to which the Bank might be entitled. Oral argument before the trial court on that issue took place on June 26, 2001, and the Bank is awaiting the Claims Court's decision. The Bank continues to vigorously pursue its case for damages against the Government.

*Bartold v. Glendale Federal Bank et al.*

On September 18, 1995, four plaintiffs commenced an action in Superior Court of California, County of Orange, alleging that the defendants Glendale Federal, to which the Bank is a successor by merger, and Verdugo, a wholly owned subsidiary of the Bank, failed timely to record their release of the mortgage interest following payoffs of residential mortgage loans and, in at least some instances, improperly required borrowers to pay fees for these releases. The plaintiffs' complaint seeks relief for the named plaintiffs, as well as purportedly for all others similarly situated in California and throughout the United States and the general public, on causes of action for violation of California Civil Code Section 2941 and California Business and Professions Code Section 17200, breach of contract, fraud and unjust enrichment. The plaintiffs seek statutory damages of \$300 for each supposed, separate violation of Section 2941 by Glendale Federal and Verdugo, restitution, punitive damages, injunctive relief and attorney's fees, among other things.

In October 1997, the trial court granted summary judgment for the defendants. In September 2000, the California Court of Appeals reversed this decision and remanded for further proceedings, including further development of class certification issues. On March 2, 2001, the trial court held that a California class had been certified. On June 7, 2001, the trial court dismissed two of the four causes of action against the Bank, holding that the OTS pre-empted the California courts from regulating the Bank's procedures for reconveying deeds. The Bank believes that it has additional meritorious defenses to plaintiffs' claims and intends to continue to contest the remaining claims in the lawsuit vigorously.

*Other Litigation*

In addition to the matters described above, GS Holdings and its subsidiaries are involved in other legal proceedings and claims incidental to the normal conduct of their business. Although it is impossible to predict the outcome of any outstanding legal proceedings, management believes that such legal proceedings and claims, individually or in the aggregate, will not have a material effect on GS Holdings or the Bank.

**ITEM 5. Other Information.**

None.

**ITEM 6. Exhibits and Reports on Form 8-K.**

(a) Exhibits:

- 3.1 Certificate of Incorporation of the Registrant, as amended. (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 3.2 By-laws of the Registrant, as amended. (Incorporated by reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)

(b) Reports on Form 8-K:

None.

## GLOSSARY OF DEFINED TERMS

**AICPA** – American Institute of Certified Public Accountants  
**APB** – Accounting Principles Board  
**APB Opinion No. 17** – Intangible Assets  
**APB Opinion No. 25** – Accounting for Stock Issued to Employees  
**ARM** – Adjustable-rate mortgage  
**Bank** – California Federal Bank  
**bps** – basis points  
**Brokered Deposits** – Issued CDs through direct placement programs and national investment banking firms  
**Cal Fed Acquisition** – Agreement and Plan of Merger among FN Holdings, Cal Fed Bancorp Inc. and California Federal Bank, A Federal Savings Bank. FN Holdings acquired 100% of the outstanding stock of Cal Fed and Old California Federal, and First Nationwide merged with and into Old California Federal in January 1997.  
**California Federal** – California Federal Bank  
**California Federal Goodwill Litigation** – California Federal Bank v. United States, Civil Action 92-138  
**CD** – Certificate of deposit  
**CFI** – Cal Fed Investments  
**Claims Court** – United States Court of Federal Claims  
**COFI** – Cost of Funds Index (tied to the FHLB's 11<sup>th</sup> District cost of funds)  
**Company** – Golden State Holdings Inc.  
**EITF** – Emerging Issues Task Force  
**EITF No. 99-20** – Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets  
**EPS** – earnings per share  
**FASB** – Financial Accounting Standards Board  
**FDICIA** – Federal Deposit Insurance Corporation Improvement Act  
**FHLB** – Federal Home Loan Bank of San Francisco  
**FHLB System** – Federal Home Loan Bank System  
**FIRREA** – Financial Institutions Reform, Recovery and Enforcement Act of 1989 and its implementing regulations.  
**FN Holdings** – First Nationwide Holdings Inc.  
**FN Holdings Asset Transfer** – FN Holdings contributed all of its assets (including all of the common stock of the Bank) to GS Holdings in September 1998.  
**FN Holdings Notes** – FN Holdings 12<sup>1</sup>/<sub>4</sub>% Senior Notes, the FN Holdings 9<sup>1</sup>/<sub>8</sub>% Senior Sub Notes and the FN Holdings 10<sup>5</sup>/<sub>8</sub>% Notes, collectively  
**FNMC** – First Nationwide Mortgage Corporation  
**FTE** – Full-time equivalent staff  
**GAAP** – accounting principles generally accepted in the United States of America  
**Glen Fed Merger** – Glendale Federal Bank merged with and into the Bank  
**Glendale Federal** – Glendale Federal Bank, Federal Savings Bank  
**Glendale Goodwill Litigation** – Glendale Federal Bank v. United States, No. 90-772C  
**GNMA** – Government National Mortgage Association  
**Golden State** – Golden State Bancorp Inc.  
**Golden State Acquisition** – FN Holdings Asset Transfer, Holding Company Mergers and Glen Fed Merger, collectively  
**Government** – United States Government  
**GS Holdings** – Golden State Holdings Inc.  
**Holding Company Mergers** – FN Holdings merged with and into Golden State Financial Corporation, which owned all of the common stock of Glendale Federal.  
**Hunter's Glen** – Hunter's Glen/Ford, Ltd.  
**IO** – Interest only  
**IRS** – Internal Revenue Service  
**LIBOR** – London Interbank Offered Rate  
**LTW<sup>TM</sup>** – Litigation Tracking Warrants  
**MSR** – Mortgage servicing rights

## **GLOSSARY OF DEFINED TERMS (continued)**

**notional amount** – the amount on which calculations, payments, and the value of a derivative is based. Notional amounts do not represent direct credit exposures.

**NPV** – Net portfolio value

**OCI** – Other comprehensive income

**Old California Federal** – California Federal Bank, A Federal Savings Bank prior to the Cal Fed Acquisition.

**OTS** – Office of Thrift Supervision

**Pass-through Interest Expense** – represents interest that FNMC pays to the investor(s) for loans serviced by FNMC, which are paid off by the borrower(s) before the end of the month. FNMC picks up the shortfall of interest on the respective loans as a result of the contractual agreement between the servicer (FNMC) and the investor(s) (*i. e.*, GNMA)

**PO** – Principal only

**Preferred Capital Corporation** – California Federal Preferred Capital Corporation

**REIT** – Real Estate Investment Trust

**REIT Preferred Stock** – 9<sup>1</sup>/<sub>8</sub>% Noncumulative Exchangeable Preferred Stock, Series A, issued by California Federal Preferred Capital Corporation in January 1996.

**Repos** – short-term securities sold under agreements to repurchase

**SEC** – Securities and Exchange Commission

**SFAS** – Statement of Financial Accounting Standards

**SFAS No. 115** – Accounting for Certain Investments in Debt and Equity Securities

**SFAS No. 121** – Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of

**SFAS No. 131** – Disclosures about Segments of an Enterprise and Related Information

**SFAS No. 133** – Accounting for Derivative Instruments and Hedging Activities

**SFAS No. 142** – Accounting for Goodwill and Intangible Assets

**SFAS No. 144** – Accounting for the Impairment or Disposal of Long-Lived Assets

**SOP** – Statement of Position

**SOP 01-6** – Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others

**Stock Plan** – Golden State Bancorp Inc. Omnibus Stock Plan

**Verdugo** – Verdugo Trustee Service Corporation

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Golden State Holdings Inc.

/s/ Richard H. Terzian

By: Richard H. Terzian  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial Officer)

/s/ Renee Nichols Tucei

By: Renee Nichols Tucei  
Executive Vice President and Controller  
(Principal Accounting Officer)

May 8, 2002